Spicy offering Bayou Brewing co-founder Steve Livingstone stands outside his successful Spokane brew pub with a Cajun theme. The brew pub's beermaking equipment was bought with a loan from the Washington Economic Development Finance Authority.

Cheapest Money Around

The little-known Washington Economic Development Finance Authority may sound like a bureaucrat's dream, but the stripped-down bond issuer is making a name for itself offering some of the cheapest money anywhere.

By Jeff Bond

In 1996, Spokane entrepreneur Steven Livingstone was looking for money to develop his latest venture — a $3.6 million Cajun-theme brew pub and restaurant, named Bayou Brewery. The risk taker, who had enjoyed careers in a carnival and then as a winemaker, took a chance on an unorthodox solution for raising part of the money.

He turned to the Washington Economic Development Finance Authority, or WEDFA, to finance more than $550,000 in new brewing equipment.

The newly privatized and virtually unknown agency with the uncomfortably bureaucratic name issues bonds for small manufacturing and processing projects located in the state. The aim is to create jobs and benefit communities.

Livingstone admits he was initially concerned about getting involved with an agency that had the air of red tape about it, but he says he was pleasantly surprised. Within a month of starting the process, the deal was completed and Livingstone had a check for about $553,000 in his hand.

"I'll be honest, you don't expect bureaucracy to respond to private business this well. At least I didn't," Livingstone says.

Beyond the swift service, the bonds were federally tax exempt and came with an interest rate well below the market, one that most small-business owners could only dream of getting from a bank.

That lower interest rate should save Bayou Brewery about $66,000 during the course of the loan compared to leasing, and will save it $47,000 over a traditional bank loan.

Now, Livingstone and his partners run one of the largest microbreweries in eastern Washington. Their Gator Ale and Spokane Red labels are selling well. They may even expand Bayou Breweries to other Northwest cities. "It's been a real boon to us," Livingstone says. "[The loan] really allowed us to build a bigger brewery than we could have otherwise."

Bayou Brewery was the authority's first success in its new incarnation as a private company. But it certainly hasn't been its last. Since this private-public hybrid moved from governmental body to private business in 1996, the authority has issued $43.2 million in bonds to small businesses in Washington and has created or preserved more than 800 jobs.

Another $56 million in bond projects are in development, with bonds expected to be issued either in 1998 or early 1999.

The appeal is simple: The rates can't be beat. "This is the cheapest money around," says WEDFA executive director Jonathan Hayes, as he talks of floating interest rates of between 3 percent and 4 percent and certain seven-year fixed rates at 5.7 percent. "If the project qualifies, this is really a no-brainer."

Bonding with business

Created in 1989 by the state Legislature, the authority was formed, according to its charter, "to develop innovative approaches to the problem of unmet bonds on both a taxable and tax-exempt basis for primarily manufacturing and processing facilities.

In 1996, the authority separated from the state Office of Community, Trade and Economic Development to make the program more viable as a business venture. While the authority retains its status as a government agency, preserving its ability to issue bonds at low interest rates and with tax-exempt status, Hayes stresses no state money is used to support authority bonds. Instead, the risk falls on the lending institutions underwriting the bonds and the businesses borrowing the money.

The authority issues three types of bonds: industrial revenue bonds, or IRBs; tax-exempt manufacturing and processing equipment bonds known as TEMPEs, for small industrial equipment projects between $250,000 and $1 million; and so-called "taxable tail" bonds. These taxable bonds, issued in conjunction with tax-exempt bonds, finance costs ineligible for tax-exempt financing or for other legal reasons.

The authority covers all bond counsel and issuance costs as well as overhead by charging a 2-percent placement fee and a 4-percent issuance fee on the total borrowed for TEMPES. For the other bonds, costs can be paid out of the amount borrowed.

Bond money can be used to buy property or processing equipment and construct manufacturing warehouses.

Lyn-Tron Inc., a Spokane firm that makes fasteners and spacers for computer circuit boards and other electronic equipment, used a $3.7 million "taxable tail" bond issuance to expand their manufacturing warehouse from 36,000 square feet to 56,000 square feet. They also bought $1 million worth of new equipment. While up-front fees were hefty, CEO Don Lynn says the 25-year loan he secured for the building and equipment will save him about $350,000 in interest compared to a conventional bank loan. Another plus: The money is paid up front and can sit in a bank earning interest as the project progresses. "I think it's a great deal," Lynn says. "Plus, it doesn't kill your cash flow like other loans. I was looking at a 9-percent bank loan as opposed to the 4.5-percent loan through WEDFA."

High fees and restrictions

Such cheap money comes with restrictions. Hayes is the first to say this program isn't for everyone. The bonds are restricted primarily to companies involved in manufacturing and processing. The companies must also be creditworthy and show some public benefit, usually job creation or retention, although Hayes says environmental improvements and other factors also can be considered. The projects must, of course, be in Washington state and be welcomed by the local community, criteria most banks don't use.

The paperwork involved is considerable and, although Hayes has streamlined the process, a few delays have occurred due to investigations and completing needed documentation.

Perhaps most important, a company using the service cannot make more than $10 million in capital expenditures for three years before and after the loan is secured in a particular political jurisdiction, such as a county or city. This assures that small businesses use the bond program, and it won't be exploited by bigger companies.

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These limitation could prevent fast-growing companies from using the service. "I have often had to regretfully advise people to not use this type of financing because the limitations are too tough," Hayes says. "You should never let the financing tail wag the business dog."

Also a concern for some companies are the up-front fees, which could reduce the benefits of the low-interest rate for projects less than $2 million or $3 million.

Dwight Drake, chairman of Tonkin Inc., a Monroe-based company that specializes in developing promotional clothing and materials for Fortune 500 companies, used the "taxable tail" bonds to raise $5 million to build a new warehouse for the company. While the bond issuance was the best choice offered him by his bank, Drake estimates he paid about $200,000 in fees for the deal. He's concluded that if the project had been $2 million smaller, he probably would have used a conventional bank loan. "This deal begins to lose its glamour if it gets too small," Drake says. "You can get real excited about a 4.5-percent loan, but the fees up front are no fun."

Hayes agrees, saying that if the project involves real estate, the bottom is probably $1.5 million. Equipment, on the other hand, can be supported down to $250,000 on a cost-effective basis.

That said, Drake also acknowledges having the money in the bank was the best part of the deal. It allowed all parties to feel secure, knowing money was already available and could be drawn down as construction progressed, instead of coming in throughout the project. "The contractor loves it; everybody loves it," Drake says. "The work just flies."

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